

# **RIVERSIDE COUNTY**

Audit Report

## **PROPERTY TAX APPORTIONMENT AND ALLOCATION SYSTEM**

*July 1, 2005, through June 30, 2013*



**JOHN CHIANG**  
California State Controller

March 2014



**JOHN CHIANG**  
**California State Controller**

March 21, 2014

The Honorable Paul Angulo  
Riverside County Auditor Controller  
4080 Lemon Street, 11<sup>th</sup> Floor  
P.O. Box 1326  
Riverside, CA 92502

Dear Mr. Angulo:

The State Controller's Office audited the methods employed by Riverside County to apportion and allocate property tax revenues for the period of July 1, 2005, through June 30, 2013. The audit was conducted pursuant to the requirements of Government Code section 12468.

Our audit disclosed that the county complied with California statutes, except that it included the Educational Revenue Augmentation Fund in the unitary and operating nonunitary apportionment.

If you have any questions, please contact Elizabeth Gonzalez, Chief, Local Government Compliance Bureau, at (916) 324-0622.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/mh

cc: Pam Elias, Property Tax Division Chief  
Riverside County  
Jeff Stone, Chairman  
Riverside County Board of Supervisors  
Jody Martin, Principal Consultant  
Joint Legislative Budget Committee  
Peter Detwiler, Staff Director  
Senate Local Government Committee  
Elvia Dias, Committee Assistant  
Senate Local Government Committee

Dixie Martineau-Petty, Secretary  
Assembly Local Government Committee  
Gayle Miller, Staff Director  
Senate Revenue and Taxation Committee  
Oksana Jaffe, Chief Consultant  
Assembly Revenue and Taxation Committee  
Neil McCormick, Executive Director  
California Special Districts Association

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the methods employed by Riverside County to apportion and allocate property tax revenues for the period of July 1, 2005, through June 30, 2013.

Our audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues, except that it included the Educational Revenue Augmentation Fund (ERAF) in the unitary and operating nonunitary apportionment.

## Background

After the passage of Proposition 13 in 1978, the California State Legislature enacted new methods for allocating and apportioning property tax revenues to local government agencies and public schools. The main objective was to provide local government agencies with a property tax base that would grow as assessed property values increased. These methods have been further refined in subsequent laws passed by the Legislature.

One key law was Assembly Bill (AB) 8, Chapter 282, Statutes of 1979, which established the method of allocating property taxes for fiscal year (FY) 1979-80 (base year) and subsequent fiscal years. The methodology is commonly referred to as the AB 8 process or the AB 8 system.

The property tax revenues that local government agencies receive each fiscal year are based on the amount received in the prior year, plus a share of the property tax growth within their boundaries. Property tax revenues are then apportioned and allocated to local agencies and schools using prescribed formulas and methods defined in the Revenue and Taxation Code.

The AB 8 base process involved numerous steps, including the transfer of revenues from schools to local agencies (AB 8 shift) and the development of the tax rate area annual tax increment apportionment factors (ATI factors), which determine the amount of property tax revenues to be allocated to each jurisdiction.

The total amount to be allocated to each jurisdiction is then divided by the total amount to be allocated to all entities to determine the AB 8 apportionment factor (percentage share) for each entity for the year. The AB 8 factors are computed each year for all entities, using the revenue amounts established in the prior year. These amounts are adjusted for growth annually, using ATI factors.

Subsequent legislation removed revenues generated by unitary and nonunitary properties, regulated railway companies, and qualified electric properties from the AB 8 process. These revenues are now allocated and apportioned under separate processes.

Other legislation established an Educational Revenue Augmentation Fund in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the fund. The fund is subsequently allocated and apportioned to schools by the county auditor according to instructions received from the county superintendent of schools or the State Chancellor of Community Colleges.

Revenues generated by the different types of property tax are apportioned and allocated to local agencies and schools using prescribed formulas and methods, as defined in the Revenue and Taxation Code. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls maintained primarily by the county assessor. Tax rolls contain an entry for each parcel of land, including the parcel number, the owner's name, and the value. Following are the types of property tax rolls:

- *Secured Roll*—This roll contains property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if necessary, can be sold by the tax collector to satisfy unpaid tax levies.
- *Unsecured Roll*—This roll contains property that, in the opinion of the assessor, does not have sufficient “permanence” or have other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—This roll contains public utility, railroad, and qualified electric properties, assessed as either unitary or nonunitary property by the State Board of Equalization.
- *Supplemental Roll*—This roll contains property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

To mitigate problems associated with the apportionment and allocation of property taxes, Senate Bill 418 was enacted in 1985 requiring the State Controller to audit the counties' apportionment and allocation methods and report the results to the California State Legislature.

## **Objective, Scope, and Methodology**

Our audit objective was to review the county's apportionment and allocation of property tax revenues to local government agencies and public schools within its jurisdiction to determine whether the county complied with Revenue and Taxation Code requirements.

To meet the objective, we reviewed the county's procedures for apportioning and allocating property tax revenues used by the county auditor and the processes used by the tax collector and the assessor.

We performed the following procedures:

- Conducted tests to determine whether the county correctly apportioned and allocated property tax revenue.

- Interviewed key personnel and reviewed supporting documentation to gain an understanding of the county's property tax apportionment and allocation processes.
- Reviewed apportionment and allocation reports prepared by the county showing the computations used to develop the property tax distribution factors.
- Reviewed tax rate area (TRA) reports to verify that the annual tax increment was computed properly.
- Reviewed county unitary and operating nonunitary reports and Board of Equalization reports and verified the computations used by the county to develop the unitary and operating nonunitary property tax distribution factors.
- Reviewed redevelopment agency (RDA) reports prepared by the county and verified the computations used to develop the project base amount and the tax increment distributed to the RDA.
- Reviewed successor agency Recognized Obligation Payment Schedules (ROPS) and county apportionment and allocation reports addressing the Redevelopment Property Tax Trust fund.
- Reviewed property tax administration cost reports prepared by the county and verified administrative costs associated with procedures used for apportioning and allocating property tax to local government agencies and school districts.
- Reviewed ERAF reports prepared by the county and verified the computations used to determine the shift of property taxes from local agencies to the ERAF and, subsequently, to public schools.
- Reviewed reports and computations prepared by the county to determine any increases in property tax revenues due cities having low or non-existent property tax amounts.

We conducted this performance audit under the authority of Government Code sections 12468 and 12410. We did not audit the county's financial statements. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of July 1, 2005, through June 30, 2013. Our audit scope was limited to:

- Reviewing operational procedures and significant applicable controls over the apportionment and allocation process;
- Examining selected property tax apportionment and allocation records; and

- Reviewing related property tax revenue data used to determine the apportionment and allocation computation process.

A property tax bill contains the property tax levied at a 1% tax rate pursuant to the requirement of Proposition 13. A bill may also contain special taxes, debt services levies on voter-approved debt, fees, and assessments levied by the county or a city. The scope of our audit is concerned with the distribution of the 1% tax levy. Special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city are beyond the scope of our audit and were not reviewed or audited.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow in order to develop appropriate auditing procedures. We did not evaluate the effectiveness of all internal controls.

In addition, we tested transactions used to apportion and allocate property taxes and performed other procedures deemed necessary. This report relates solely to the method used by the county to apportion and allocate property taxes.

## **Conclusion**

Our audit disclosed that, except for the items discussed in the Finding and Recommendation section of this report, Riverside County complied with California statutes for the apportionment and allocation of property tax revenues for the period of July 1, 2005, through June 30, 2013. The county should correct the item discussed in the Finding and Recommendation section.

## **Follow-up on Prior Audit Findings**

Our prior audit report, issued March 2007, included no findings related to the apportionment and allocation of property tax revenues by the county.

## **Views of Responsible Officials**

We issued a draft audit report on February 10, 2014. Pam Elias, Chief Accountant, responded by letter dated February 19, 2014 (Attachment). She agreed with the audit results.

## **Restricted Use**

This report is solely for the information and use of Riverside County, the California Legislature, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

March 21, 2014



# Finding and Recommendation

## **FINDING— Unitary and operating nonunitary apportionment**

The county's unitary allocation system includes the Educational Revenue Augmentation Fund (ERAF). This calculation resulted in an over-apportionment to the ERAF.

Requirements for the apportionment and allocation of unitary and operating nonunitary property taxes are found in Revenue and Taxation Code section 100.

Unitary properties are those properties on which the Board of Equalization "may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee" (i.e., public utilities, railroads, or qualified electric properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In fiscal year (FY) 1988-89, the Legislature established a separate system for apportioning and allocating the unitary and operating nonunitary property taxes. The Legislature established the unitary and operating nonunitary base year and developed formulas to compute the distribution factors for the fiscal years that followed.

### Recommendation

The county should remove the ERAF from the unitary apportionment.

### County's Response

The county has removed the ERAF from the unitary apportionment as of FY 2013-14.

### SCO Comment

The SCO agrees with the county's corrective action and will review the correction in the next audit.

**Attachment—  
County's Response to  
Draft Audit Report**

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**COUNTY OF RIVERSIDE**  
**OFFICE OF THE**  
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**ACC** | **AUDITOR**  
**CONTROLLER**  
**COUNTY OF RIVERSIDE**

Paul Angulo, CPA, M.A.  
AUDITOR-CONTROLLER

February 19, 2014

Ms. Elizabeth Gonzalez, Chief  
Local Government Compliance Bureau  
State Controller's Office – Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Subject: Audit Report Response

Dear Ms. Gonzalez,

We have received the draft Riverside County Audit Report of the Property Tax Apportionment and Allocation System for the period of July 1, 2005 through June 30, 2013. This letter is in response to the Finding and Recommendation. As of Fiscal Year 2013-14 the county has removed ERAF (Educational Revenue Augmentation Fund) from the unitary apportionment.

If you have any comments or questions, please contact Pam Elias at 951-955-0320.

Sincerely,

Pamela M. Elias  
Chief Accountant, Property Tax Division

Cc: Jeffrey V. Brownfield, CPA, Chief, Division of Audits  
Paul Angulo, CPA, MA, Auditor-Controller  
Frankie Ezzat, MPA, Assistant Auditor-Controller

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